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UNCLAS SECTION 01 OF 02 THE HAGUE 000101

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E.O. 12958: N/A

TAGS: [PARM](#) [PREL](#) [CWC](#)

SUBJECT: CHEMICAL WEAPONS CONVENTION (CWC): EXPANSION OF
WORKING CAPITAL FUND

REF: A. (A) 03 THE HAGUE 2979

[B.](#) (B) 03 THE HAGUE 2944

[C.](#) (C) CWDEL-AC/CB E-MAILS

This is CWC-5-04.

[1.](#) (U) Summary and Request for Guidance: January 27 consultations at the OPCW will focus on a proposal to expand the Working Capital Fund (WCF) and extend the period for replenishment of the fund. Delegation believes the initiative can be the basis for resolution of the cash flow aspect of the difficulties regarding Article IV and V payments. We request authorization to support the proposal "in principle," while making clear that final U.S. support requires extensive work on a number of important details regarding the proposed changes to the WCF. End Summary and Request for Guidance.

[2.](#) (U) On January 27, informal consultations will be held at the OPCW on the issue of Article IV and V payments. The focus will be on the recommendations of the Advisory Body on Administrative and Financial Matters (ABAF) to resolve this issue. This proposal, strongly supported by the Technical Secretariat (TS), calls for expanding the Working Capital

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Fund (WCF) to finance Article IV and V inspections, extending the repayment period for the WCF, and using future payments by possessor states to replenish the WCF. The initial increase in the WCF would be drawn from previous years' cash surpluses (REFs).

[3.](#) (U) The Geneva Group (representing the principal financial contributors to the OPCW) met on December 16 to plan the group's agenda for 2004 and review financial and administrative issues facing the Organization. The participants agreed that finding a structural solution for Article IV and V payments was the group's top priority. Johan Verboom (Netherlands), facilitator for the Article IV/V funding issue, acknowledged that the ABAF recommendation does not finally resolve the Article IV/V issue, since it does not address the problem of "fictitious income" (anticipated payments from possessor states that are not received because inspection activities are below projections).

[4.](#) (U) However, emphasized Verboom, the ABAF proposal would solve the cash flow problem, which was a "very important" element of the Article IV/V issue. Verboom personally favored the proposal for the further practical reasons that it did not require the creation of a new funding mechanism within the Organization and because the ABAF recommendation already enjoyed a near consensus among States Parties and within the TS. He hoped this "very good" solution would not be jeopardized in hopes of securing a "perfect solution, which does not exist."

[5.](#) (U) Geneva Group co-Chairman Peter Beerwerth (Germany) addressed the point that the USG and other States Parties, as a matter of policy, favored returning surplus funds to member states. He pointed out that the Conference of States Parties had already agreed that the cash surplus from previous years (most of this the result of late Article IV/V payments by possessor states) should be used to "ensure the implementation of the approved 2004 program of work... in the event of disruptions in Articles IV and V income..." Beerwerth added that under the ABAF proposal, repayments by possessor states for Article IV/V inspections would not enter the WCF as a "surplus," but would, instead, be used for their intended purpose -- funding Article IV and V inspections. It was not a question of whether or not surplus funds would be returned to States Parties.

[6.](#) (U) Verboom summarized three aspects of the Article IV/V problem:

- when fewer inspections took place than anticipated,

inspectors' salaries are not covered by possessor states;

- when more than expected inspections took place, unanticipated costs are incurred;

- repayment by possessor states lags actual inspection activity by months or years.

A larger WCF, with a longer repayment period, he said, would help address the important cash flow component of the issues noted above. Particularly in view of the key procedural advantage of using an already established fund, and the momentum that had developed behind the ABAF proposal, Verboom said he "hoped all will agree" to consultations on the basis of this proposal.

17. (SBU) Del strongly believes the ABAF proposal can be the basis for a resolution of the cash flow problem involved with Article IV and V. While it will not eliminate all of the Article IV/V difficulties, it can remove a key problem and improve the ability of the OPCW to pursue prudent financial planning. All delegations are aware of the fact that the ABAF proposal is an exception to the general rule of returning cash surpluses to member states, and of the general requirements in the UN system for funds to cushion against unforeseen costs or events. However, the overwhelming sentiment is that the vagaries of the Article IV/V problem clearly warrant an exceptional measure for the OPCW.

18. (SBU) We recognize that there remains a substantial amount of work that needs to be done on the details regarding the ABAF proposal. However, we strongly believe the proposal is worthy of support, and therefore request authorization to agree "in principle" to the ABAF recommendation at the January 27 consultations. While making that statement, we would emphasize that final U.S. support is conditioned on resolution of the details of the changes to WCF operations, including, but not limited to, the following issues:

- the specific amount of WCF expansion;
- the period of repayment of funds drawn from the WCF;
- conditions on use of funds taken from the WCF;
- controls over the spending of the funds in the WCF;
- the period of time member states will have to pay invoices.

19. (U) Javits sends.

SOBEL